AMENDMENTS TO THE CLAIMS

Claim 1. (Currently Amended) A method for actively managing an account through volatility arbitrage and harvesting, comprising the steps of:

(A)   establishing a tracking basket containing a plurality of equities, the equities in the tracking basket being included in an underlying index and together possessing:

1.   A ~~high degree of~~ correlation to the underlying index within a prescribed range; and

2.   A predetermined volatility differential relative to the underlying index; and

(B)   dynamically hedging the tracking basket using options, the hedging step including the steps of:

buying put options on the underlying index in an amount sufficient to cover the notional amount of the tracking basket at a cost, and

selling a selection of call options on a plurality of the equities in the tracking basket to raise premium in an amount greater than the cost of buying the put options.

Claim 2. (Original) The method as in claim 1, wherein the establishing step comprises executing an optimization routine on a programmed computer against at least one predetermined constraint, the optimization routine compiling the tracking basket to include a set of equities and a quantity of each equity in the set.

Claim 3. (Original) The method as in claim 2, wherein the at least one predetermined constraint is that a prescribed percentage of the tracking basket consist of equities having a minimum volatility differential relative to the underlying index.

Claim 4. (Original) The method as in claim 3, wherein all of the equities in the tracking basket have a minimum volatility differential relative to the underlying index.

Claim 5. (Original) The method as in claim 3, wherein a second predetermined constraint is that the tracking basket be less than a predetermined percentage of the underlying index.

Claim 6. (Original) The method as in claim 1, wherein the establishing step includes a regression analysis which results in a tracking basket that achieves an r2 value, relative to the underlying index, above a predetermined value.

Claim 7. (Original) The method as in claim 6, wherein the r2 value is 0.8 or higher.

Claim 8. (Original) The method as in claim 6, wherein the r2 value is maximized.

Claim 9. (Original) The method as in claim 6, wherein the establishing step further includes swapping equities into and out of the tracking basket and repeating the regression analysis until a tracking basket is identified that achieves the r2 value above the predetermined value.

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Claim 10.   (Original)   The method as in claim 1, wherein the establishing step results in a

tracking basket which includes less than a predetermined percentage of the underlying index.

Claim 11. (Original) The method as in claim 10, wherein the predetermined percentage is 70%,

whereby the tracking basket is not substantially identical to the underlying index.

Claim 12. (Original) The method as in claim 1, wherein the hedging step is performed in

accordance with predetermined criteria.

Claims 13-15. Canceled.

Claim 16. (Previously presented) The method of claim 1, including the additional step, prior to

the step of buying put options, of selecting the put options so that the net delta of the tracking

basket and the selection of options is below a threshold value.

Claim 17. (Previously presented) The method of claim 1, including the additional step, prior to

the step of buying put options, of selecting the put options so that the net delta of the tracking

basket and the selection of options is minimized.

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Claim 18. (Original) The method as in claim 1, wherein the hedging step comprises buying put options on a plurality of the equities in the tracking basket and selling call options on a plurality of the equities in the tracking basket.

Claims 19-20. Canceled

Claim 21. (Previously presented) The method of claim 33, including the additional step, prior to the step of purchasing the long put, of selecting the long put so that the net delta of the portfolio is below a threshold value.

Claim 22. (Previously presented) The method of claim 33, including the additional step, prior to the step of purchasing the long put, of selecting the long put so that the net delta of the portfolio is minimized.

Claim 23. (Original) The method of claim 1, wherein the step of dynamically hedging the tracking basket comprises a re-assessment of the dispersion of the tracking basket.

Claim 24. (Original) The method of claim 23, wherein the re-assessment occurs periodically.

Claim 25. (Original) The method of claim 23, wherein the re-assessment occurs in response to prescribed events.

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Claim 26. (Original) The method of claim 23, wherein the re-assessment of the dispersion of the tracking basket comprises one or more of the following: rolling the hedge into a later maturity period, trading at least a portion of the hedge, and permitting at least a portion of the hedge to expire.

Claim 27. (Original) The method of claim 26, wherein the re-assessment is performed in accordance with predetermined criteria.

Claim 28. (Previously presented) The method of claim 26, wherein the re-assessment includes:

1. performing a skew analysis on at least a portion of the equities in the tracking basket over one or more maturity periods to identify a first set of options each commanding a premium;

2. identifying a second set of options each of which has a relative implied volatility which is greater than its historical volatility in a given maturity period;

3. balancing the implied volatility percentage of the options in the first set against the relative implied volatilities of the options in the second set to identify a selection of options to sell;

4. buying put options on the underlying index in an amount sufficient to cover at least the notional amount of the equities in the tracking basket; and

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5. selling the selection of options to raise premium in an amount greater than

the cost of the put options bought in the buying step.

Claims 29-31 (Cancelled)

Claim 32. (Previously presented) A software program contained on a computer-readable medium

which, when executed within a digital computer, causes the computer to:

a)   access current price information on a designated underlying index, and each of the

equities in a tracking basket established in accordance with prescribed criteria;

b)   perform a skew analysis on at least a portion of the equities in the tracking basket

over one or more maturity periods to identify a first set of options each commanding

a premium;

c)   identify a second set of options each of which has a relative implied volatility which

is greater than its historical volatility in a given maturity period;

d)   balance the implied volatility percentage of the options in the first set against the

relative implied volatilities of the options in the second set to identify a selection of

options to sell;

e)   identifying one or more put options which, together with the selection of options to

sell, results in a net delta of a portfolio which includes the tracking basket, the

selection of options to sell, and the identified put options which is below a threshold

value; and

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f)   display on a monitor connected to the computer the selection of options to sell and

the identified put options, whereby the software program automatically identifies a

generally risk neutral portfolio.

Claim 33. (Currently Amended)   A method for actively managing an account through volatility

arbitrage and harvesting, comprising the steps of:

(A)   establishing a tracking basket containing a plurality of equities, the equities in the

tracking basket being included in an underlying index and together possessing:

          1.   A ~~high degree of~~ correlation to the underlying index within a prescribed

          range; and

          2.   A predetermined volatility differential relative to the underlying index; and

(B)   dynamically hedging the tracking basket using options, the hedging step including

the steps of:

          1.   performing a skew analysis on at least a portion of the equities in the

          tracking basket over one or more maturity periods to identify a first set of options

          each commanding a premium;

          2.   identifying a second set of options each of which has a relative implied

          volatility which is greater than its historical volatility in a given maturity period; 3.

          balancing the implied volatility percentage of the options in the first set

          against the relative implied volatilities of the options in the second set to identify a

          selection of options to sell;

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    4.   selling the selection of options to raise a premium; and

    5.   purchasing a long put against the underlying index for an amount which is

not substantially greater than the premium raised.